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During our assessment, we noted inefficiencies in processing bad checks were pervasive

- The process varied substantially from department to department. However, none of them seemed efficient.

- The most common issues included:

  - Manual tracking systems

  - Numerous, cumbersome imprest accounts

  - Numerous hand-offs of the items

  - Numerous reconciliations

  - Inconsistent approaches to collections efforts – some use collection agencies, others do not – some write off while others obtain judgments and file warrants, etc.

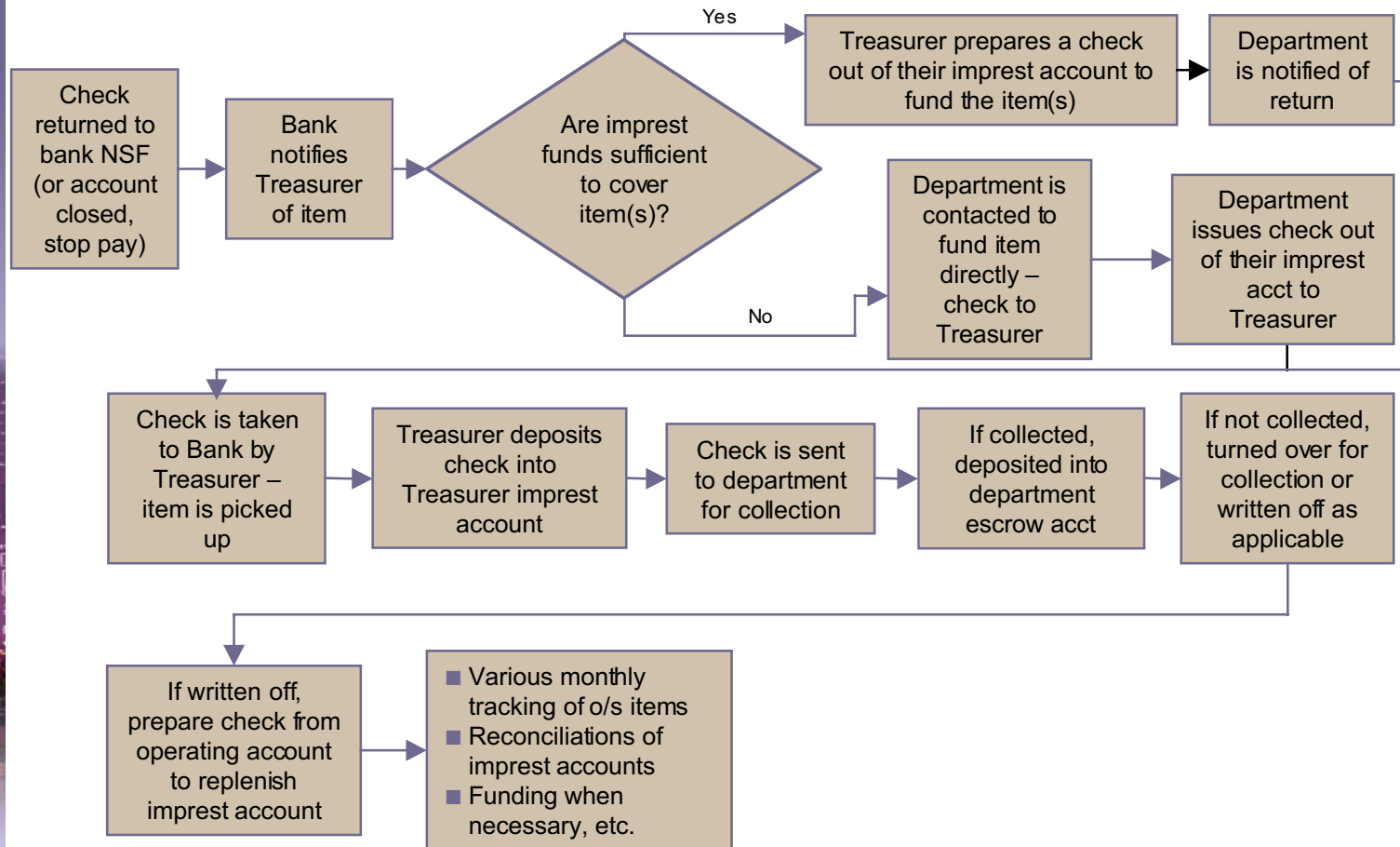 - Inconsistent charging and collection of bad check fees.

> **When combined, the above issues make the process time consuming and onerous, Many departments commented on the burden associated with processing these items**

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The chart below depicts the current bad check process at a high level

Bad Check Processing

- It assumes that the bank deals directly with Treasurer; some departments bypass the treasurer in this process

Process flow diagram:

- **Check returned to bank NSF (or account closed, stop pay)** → **Bank notifies Treasurer of item** → **Are imprest funds sufficient to cover item(s)?**
  - **Yes** → **Treasurer prepares a check out of their imprest account to fund the item(s)** → **Department is notified of return**
  - **No** → **Department is contacted to fund item directly – check to Treasurer** → **Department issues check out of their imprest acct to Treasurer**

- **Check is taken to Bank by Treasurer – item is picked up** → **Treasurer deposits check into Treasurer imprest account** → **Check is sent to department for collection** → **If collected, deposited into department escrow acct** → **If not collected, turned over for collection or written off as applicable**

- **If written off, prepare check from operating account to replenish imprest account** →
  - Various monthly tracking of o/s items
  - Reconciliations of imprest accounts
  - Funding when necessary, etc.

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At a more detailed level, the process is complicated by substantial variability

Bad Check Processing

- The following summarizes some of the major differences in bad check processing from department to department

Uses Metro Account (*Treasurer Notified of Return First*)	■ Water/Sewer – permits ■ Trustee – over-the-counter payments ■ Public Works ■ Police Dept ■ DUI and Traffic School ■ State Fair Board ■ Traffic Violations Bureau	■ Health Dept ■ Social Services ■ Fire/EMS ■ General Hospital ■ Bordeaux Hospital ■ Sheriff
Deals Directly with Bank (*Department Notified First*)	■ Water/Sewer ■ Trustee – Lock box ■ County Clerk ■ Police – Secondary Emp	■ Register of Deeds ■ Park and Recreation ■ Clerk and Master
Collects Bad Checks Internally	■ Water/Sewer ■ Trustee ■ Public Works ■ Register of Deeds ■ Parks and Recreation ■ Clerk and Master ■ Health Dept	■ Social Services ■ Fire/EMS ■ General Hospital ■ Bordeaux Hospital ■ Convention Center ■ County Clerk
Uses a Collection Agency	■ Parks and Recreation ■ Fire/EMS ■ Convention Center	
Sends to the Metro Legal Dept	■ State Fair Board ■ Clerk and Master ■ Public Works	
Obtains Judgments and Warrants	■ County Clerk	

- Based on data reviewed, collection agency costs varied from 18 to 23% per item.

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Although the individual items tend to be relatively small, the total costs associated with handling the items is significant

■ Bad check processing is currently costing Metro at least $82,000 per year. The breakdown of major departments included in our activity analysis is as follows:

Department	Annual # of Bad Checks	Annual $ of Bad Checks	% of Revenue	Estimated Costs per Activity Analysis
Trustee	336	$346,550	.08%	$12,000
Water/Sewer	3,655 *	$292,400	.17%	$2,000
County Clerk	300 *	$274,200	.48%	$15,000
Traffic Violations Bureau	540	$29,700	N/A	INC
Clerk and Master	33	$28,200	2.13%	$3,000
General Sessions Court (includes DUI)**	130	$6,500	N/A	$16,000
Police**	78	$22,800	N/A	$11,000
Health**	83	$3,400	N/A	$6,000
Other**	307	128,000	N/A	$17,000
Total	5,462	$1,131,750		$82,000

* – Estimate   ** - Per Treasurer data only – may not include entire volume of bad checks.
INC – Activity analysis response was incomplete and not meaningful.
– Dollar and volume data not available
Note: All costs are estimates based on summarization of activity analysis responses using actual salaries and a 30% benefits rate.

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Additional labor and write off costs, although potentially significant, could not be measured

■ For example:

– Many departments pass the bad check collection effort to other internal departments (Sheriff, Metro Legal, etc). These departments were not included in activity analysis.

– With $1 million in bad checks per year identified, there are sure to be losses due to write-off. Although most departments could not provide meaningful information on amounts written off, it is not unreasonable to assume that 20% or more could be lost – *up to $200,000 per year*.

– Water and Sewer incorporates the bad checks into the receivables making it difficult to determine whether amounts are ultimately written off or collected.

– Police uses a check approval service for certain checks. Our experience has shown that these solutions tend to have costs that outweigh potential benefits for most non-retail entities.
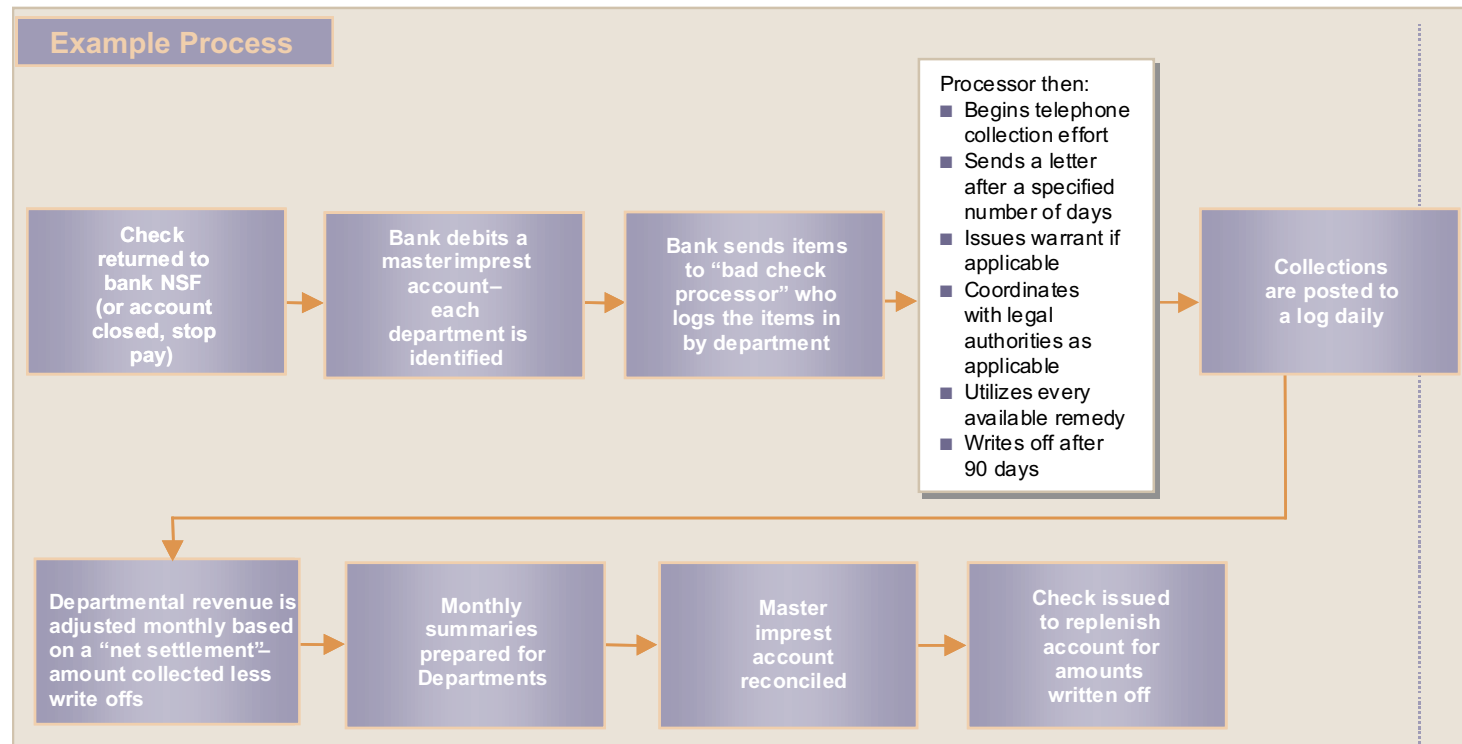
Complete standardization and centralization of the bad check handling process could offer a lower cost alternative.

Bad Check Processing

One approach to standardization and centralization is summarized below

■ We are assuming that the centralized function would be housed in the Metro Treasurer's office – the logical place given their daily contact with the bank. Other collections functions could be located elsewhere in Finance.

Example Process

Processor then:
- Begins telephone collection effort
- Sends a letter after a specified number of days
- Issues warrant if applicable
- Coordinates with legal authorities as applicable
- Utilizes every available remedy
- Writes off after 90 days

| Check returned to bank NSF (or account closed, stop pay) | → | Bank debits a master imprest account– each department is identified | → | Bank sends items to "bad check processor" who logs the items in by department | → | Collections are posted to a log daily |

| Departmental revenue is adjusted monthly based on a "net settlement"– amount collected less write offs | → | Monthly summaries prepared for Departments | → | Master imprest account reconciled | → | Check issued to replenish account for amounts written off |

■ Metro would have several options in implementing a process similar to this such as:
  – Obtaining reconciliation information electronically from the bank and, possibly
  – Utilizing the FastNet AR module for tracking individual items.

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A centralized approach would provide several advantages over the current state

- Less imprest accounts

- Ability to focus training on dedicated bad check processing personnel allowing:

  - Higher collection rates

  - Maximum utilization of available laws and relief

  - Faster collection

  - Simpler reconciliations

- Fewer personnel involved in the process – lowering costs and frustration

- Elimination of expensive check approval services

- Lower collection agency costs

- Better cost recovery – consistent fees as permitted by-law would be assessed against those presenting Metro with bad checks – *AT $20 – $25 PER ITEM, THE FUNCTION WOULD BE SELF-FUNDING.*

> **These benefits would be achieved while maintaining the integrity of posting total deposits that tie to revenue – the genesis of the multiple imprest accounts.**

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Assuming the function could be staffed with 2 FTE in Treasury, net savings of $20,000 to $200,000* per year could result

■ In addition, frustration levels would be reduced.

■ However, similar to consolidation of bank accounts, there will be implementation issues.

■ These would include:

– Mayor, Finance Director, and Treasurer support must be obtained.

– Each affected elected official's support must be obtained (start with those presenting the largest benefit).

– Treasurer would have to hire appropriate staff.

– Either FastNet or another automated solution would have to be set up to track outstanding items, collection efforts, write-offs, etc. – *BY DEPARTMENT*

• *FastNet AR module could be an option. Bad checks could be input as invoices and tracked through collection or write off. Aging would be automated.*

Note: Savings are ranged to include an estimated $200,000 of reduced write-offs—actual results could be better or worse. Cost for 2 Treasury FTE is assumed at $25,000 per year each plus 30% for benefits. This may partially be offset by personnel savings in the departments or Treasury, as time currently spent on bad check processing is redistributed. Consistent collection of per item fees would increase benefits as well.

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Implementation Tasks

Task	Responsibility	2001						2002					
		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Conduct meeting of project team to set project goals, assign responsibilities, set key dates, planned service levels, cost allocation/funding, fees to Metro customers, etc. – document the results of this meeting in a project charter.	Project Team							▓					
Meet with a FastNet representative to discuss capabilities of the financial applications system provider accounts receivable module for tracking bad check receivables – or in bad checks in process of collection.	Project Team							▓					
If suitable, implement financial applications system provider AR module. (Consideration must be given to ability to segregate items by department and track status of item in collection process – i.e. called customer, turned over to Sheriff, written off, etc.)	Project Team							▓	▓				
Develop management reporting for department (will facilitate overall status updates, collection/loss performance tracking, settlement with departments, etc.).	Project Team, IT, FastNet							▓	▓	▓			
Develop job descriptions, levels, etc. for personnel planned for new unit. Post jobs in accordance with policy. (Supervisor would be among current Treasurer personnel)	Project Team							▓					

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Implementation Tasks (continued)

Task	Responsibility	2001						2002					
		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Assess space requirements for central unit. Compare with current available space, proximity to collections locations, bank branches, etc., and select the location for the centralized unit. (Most likely minimal – unit will be small)	Project Team							▓					
Make arrangements for configuration of selected space and installation of selected hardware and software.	Project Team							▓					
Document procedures for: ■ Inputting bad checks into the AR system (or other tracking system if the current financial application system provider AR does not appear to be suitable). ■ Tracking and performance reports. ■ Monthly reconciliation and revenue settlement with departments.	Project Team							▓	▓	▓			
Train new employees on process for collection, available legal remedies, etc. ; Implement new process (including departmental training).	Project Team, Treasurer										▓	▓	

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Implementation Tasks (continued)

Task	Responsibility	2001						2002					
		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Coordinate with bank to set up a master imprest account to use for debiting all bad checks. The department on whose behalf the item was originally deposited must be identified for reconciliation purposes.	Project Team									▓			
Assess control environment of new process and modify as necessary.	Internal Audit										▓		
Go live with new process. (phased approach, adding more departments each week)	Project Team											▓	▓

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